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ABSTRACT

Drawing from journal, report, and monographic literature, this paper offers an analysis of community college funding in the 1990's. In the first section, various stories appearing in the "Chronicle of Higher Education" are highlighted, pointing to such financial problems as state deficits and shrinking educational budgets, no federal increases in higher education funding, lay-offs and deteriorating employment conditions on campus, and state-level budget cuts to systems of higher education. The next section looks at factors affecting access to education, including problems such as tuition increases and economic turndowns. After noting patterns in the states' economies and appropriations for higher education, the paper addresses the overall downward turn in revenues earned from state lotteries, now functioning in 31 states. Next, the competitors for state funds are identified as education, health care, and the criminal justice system, and it is recommended that all segments of education develop a unified front in order to compete for scarce resources, rather than competing with one another. The next section looks at trends in funding from local, state, and federal taxes, indicating that the states have become the primary providers of financial resources for the community colleges. The use of funding formulas for state appropriations is discussed next, and issues related to the impact of enrollment declines on enrollment-driven formulas, quality incentives, and regional variations are noted. Finally, concluding comments discuss the manner in which financial limitations are affecting every segment of education. A 26-item bibliography is included. (PAA)

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FINANCING THE AMERICAN COMMUNITY COLLEGE IN THE 1990'S:

A NEW KIND OF BLUES, OR THE SAME OLD TUNE?

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Singing the blues.

These inaugural years of the nineteen-nineties are times when reading a newspaper can be downright depressing. There is much talk of recession, reduction, and retrenchment. State governments across the country are finding their revenues shrinking just as the demand for state-funded services is expanding.

In a recent issue of *The Chronicle of Higher Education* , one could read, *"After several years in which college leaders predicted the worst and did slightly better than that, 1991 is shaping up as a year of true financial hardship for state colleges and for state financial-aid programs that assist students at both public and private institutions"* (Blumenstyk & Cage, 1991b, pp. A-1). The article further relates that at least 37 states face deficits this year, unless they raise taxes, cut spending, or do both. The authors attribute the push for more funds for higher education to the rapid growth of community college enrollments throughout the 1980's, creating intense competition for educational dollars between the universities, the community colleges, and

the school districts. The open-door policy and evangelical zeal of community college admissions officers have persuaded the American people that a college education is essential for everyone, but the proverbial pie has already been sliced thin. There are not enough (funded) FTE to go around. At the same time, outside pressures for state support come from the spiraling cost of health care, the growing number of unemployed, and the endemic expansion of the nation's criminal justice system.

In another issue of the *Chronicle* , the reader is informed that President Bush will not support a federal increase in higher education spending (DeLoughry, 1991). State levels of support are unstable from year to year, and state legislators are calling for more responsibility (read "taxes") to be placed on local and federal sources. However, the federal government appears to be unlikely to shoulder the burden.

Should one be inclined to read still more alarming news, the *Chronicle* reported that academe is no longer a safe place to work. According to Grassmuck (1991),

"Rising costs and dwindling resources have spurred dozens of colleges to lay off scores of workers, many of them long-time employees." Many of these institutions have handled the terminations poorly, creating an atmosphere of bitterness and anger that compounds the problems. Part of the difficulty stems from the inexperience of many administrators in academe with financial situations that necessitate a reduction in force. Grassmuck reported that well-meaning administrators at some institutions enlisted industrial labor consultants, who made a bad situation worse with heavy-handed, often patronizing tactics that were inappropriate in an ivy-clad cultural climate. The author referred to an unwritten, yet pervasive, tradition of lifetime employment in academe, even for those in untenured positions. In fact, higher education is a labor-intensive field that is closer to being a handicraft than a mass-production industry. Discretionary funds comprise a small portion of the total budget; if the allocation drops too far, personnel cuts are unavoidable.

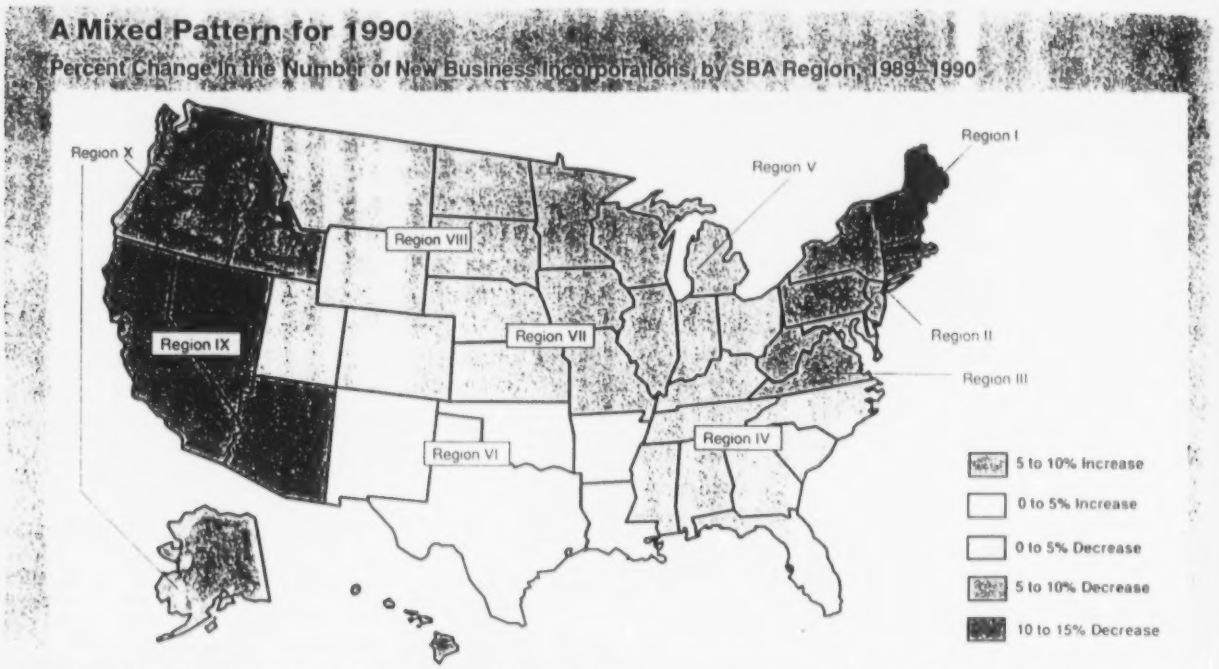
Still another issue of the *Chronicle* reported on a recent study conducted by the American Association of State Colleges and Universities (Sweeney, 1991). In this article, it was reported that 30 states dealt mid-year budget cuts to their systems of higher education. The budget crunches were described "by many lifetime educators as the worst they have ever seen," at least since the Great Depression (Cage, 1991b). The educators were accustomed to seeing mid-year budget increases, if in fact any change was made in the year's allocation. Since 1990, state support for higher education is reported by Cage as being down 30 percent in Massachusetts, 27.2 percent in New Jersey, 15 percent in Rhode Island and Virginia, 13 percent in Connecticut, 10 percent in Maryland and 9.5 percent in California. College presidents in 22 states reported Fiscal Year 1991-92 allocations that are lower than what was received for the preceding fiscal year.

Access and excess.

While the 1980's were characterized by a verbalized commitment to access for citizens from all

economic levels, the tuition increases of the decade are causing concerns that higher education will revert to being an option open only to those students wealthy enough to afford the price tag, or so meritorious as to win in the competition for scholarships. Economists theorize an inverse relationship between tuition charges and enrollment: as tuition rises, enrollments will fall (Leslie & Brinkman, 1988). However, evidence reported by Honeyman, Williamson & Wattenbarger (1991) indicates that the tuition increases of the late 1980's did not create a decline in enrollments, despite having occurred within the environment of a reduced pool of available financial aid for community college students of the period.

Not surprisingly, those states where the higher education budget is dealt the hardest hit correspond with the states experiencing economic downturns. A map provided by the United States Small Business Administration shows 31 states that experienced a decline in the number of new businesses incorporated in 1990; only four states reported new business starts for



Source: Adapted by the U.S. Small Business Administration, Office of Advocacy, from data published by The Dun and Bradstreet Corporation, *New Business Incorporations* (March 13, 1991).

Figure 1 Source: The Small Business Advocate, June 1991, pp. 7.

the year that were as high as the modest range of five to ten percent (Fleming, 1991).

Roller-coaster funding rides.

Alaska is a state that has survived a roller-coaster ride more wild than the usual in the fluctuations in level of state support. The following two maps, generated at the Office of Institutional

Research, University of Alaska System for FY86-88 and FY88-90, depict that most states were subjected to cuts at one time or another since the mid-1980's. Those states which encountered the most severe fiscal fate in FY86-88 were, for the most part, those same states that were formerly wealthy, the oil producing areas. State systems of higher education can be no better off than the state treasury; when revenues fall short of what had been predicted, state institutions will absorb the loss with midyear allocation cuts.

The map for FY88-90 shows a different pattern than the previous map, reflecting recovery in some state systems, while others have fallen into the budget-reduction classification. In this vast country, the fortunes and misfortunes of one state do not always affect the rest of the region; trends take a very long time to reach from shore to shore. From the long perspective, any state that is in decline will ultimately pull out of the valley.

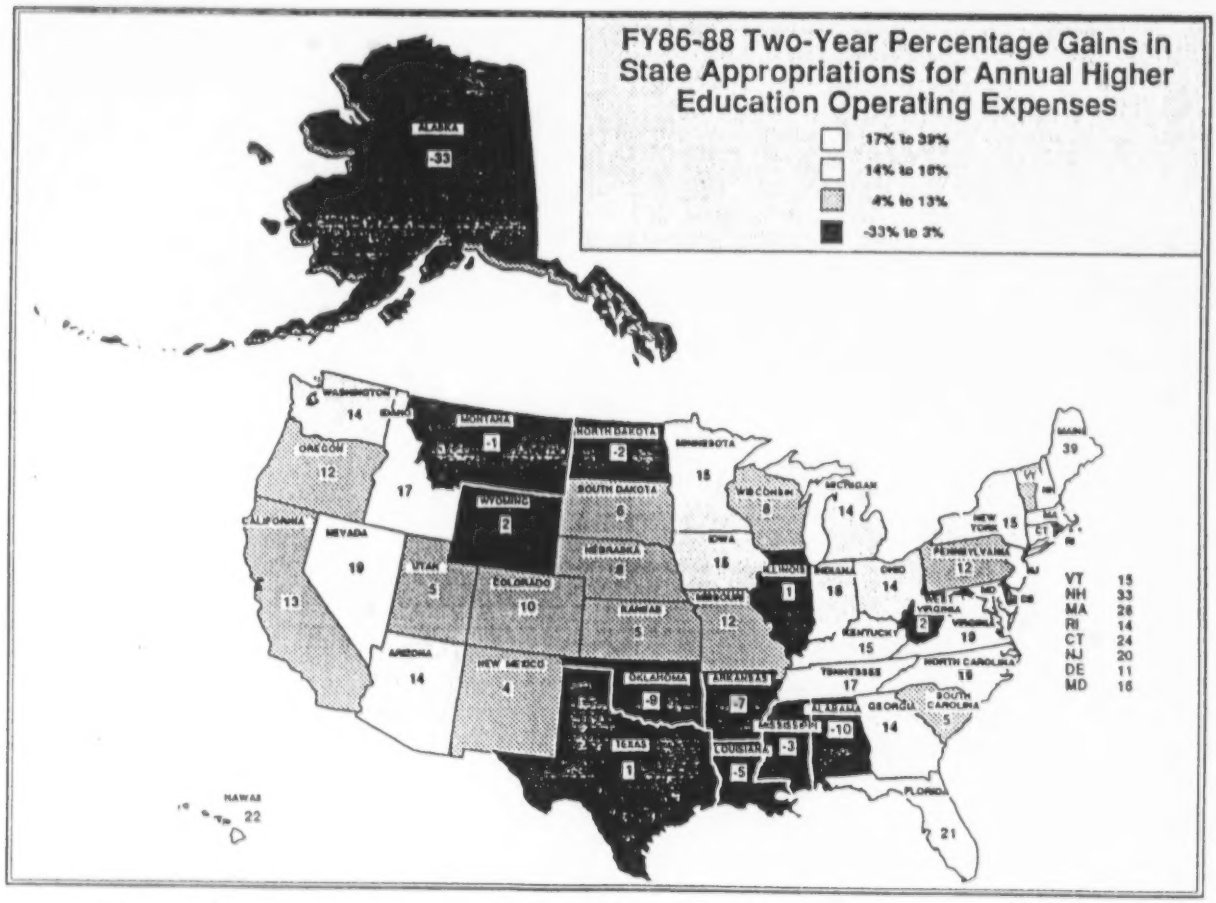


Figure 2 Source, *Statistical Abstract 1988*, pp. 6-5.

Sure bets and rare creatures.

Some states have been able to generate a bonanza of sorts through the inception of a state lottery;

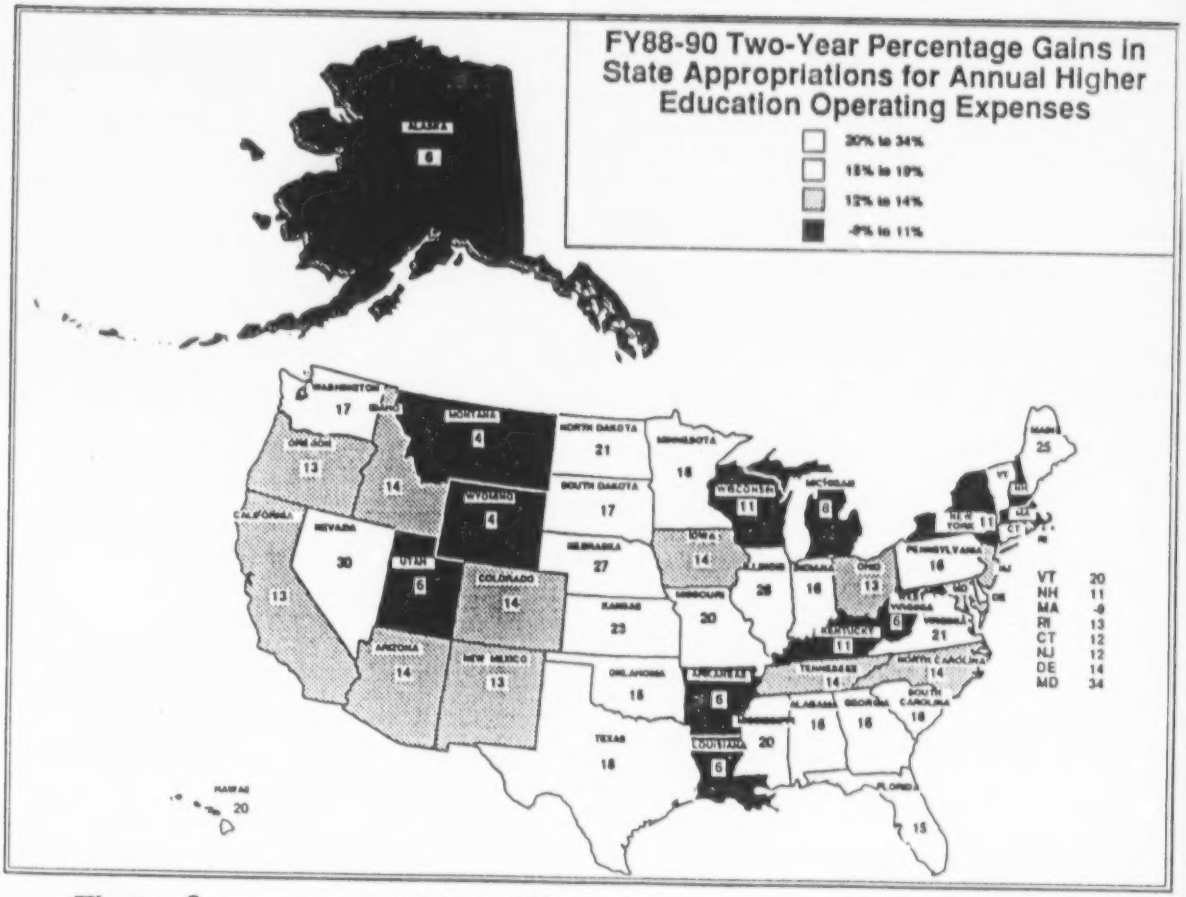


Figure 3 Source: Statistical Abstract 1990, pp. 6-5.

lotteries now operate in 31 states and the District of Columbia (Bayles, 1991). However, most of those states are now seeing a drop in lottery revenues, apparently because a saturation point is rapidly being reached in

the American public's interest in the game. From 1990 to 1991, revenues were essentially flat in six states; seven others reported lottery earnings lower in 1991 than in 1990. In 1990, fifteen states were reported as using a lottery for one source of community college funding (Honeyman, et al.). Governor Ann Richards of Texas was quoted by Bayles as describing the lottery as being "the rarest of all creatures, a popular way to generate revenue." Bayles termed the state lotteries "no sure bet." Doubtless, today the lottery is neither a rare creature nor a sure bet, at least in terms of funding this country's community colleges.

Fighting over a slice of pie.

Declines in the pool of funds available for state-supported institutions exacerbate the problems that result from competition between institutions. In the 1990's, the competition appears to be among education, health care and the criminal justice system. In the 1980's, it was perhaps more intense between the various systems of higher education: kindergarten through secondary school, vocational/technical and community

colleges, and universities. According to Wattenbarger (1985), "*The effective use of income has been directly deferred by a fluctuating economy, persistent inflation, lessened respect for higher education, shifting priorities, and a declining interest in support for public services in general* " (pp. 253). What was true in 1985 is no less true in 1991. The appropriate way to respond is with the unified forces of all segments of education, in place of in-fighting over a slice of a shrinking pie. According to Honeyman, Williamson & Wattenbarger, "*Competition for scarce resources may no longer be in the best interest of the community college; cooperation and the use of effective total educational leverage may be the most effective strategy for the future,*" (pp. 2).

Local, state, or federal taxes?

States have evolved to be the primary financial resource providers of community colleges; therefore, the colleges are inextricably linked to the annual rises and falls in state wealth. In the earliest days of the community colleges, they were funded along with the school districts through local taxes (Cohen &

Brawer, 1989). In the tradition of the American school district, student fees were negligible or non-existent. In 1934, local districts provided 84 percent of total support for community colleges, the remainder comprised mainly of student fees (Leslie, quoted in Cohen & Brawer, pp. 128). This statistic does not reflect the individual approaches taken by each state, which have characteristically led to major deviations from the mean. For example, Eells reported in 1931 that student tuition comprised 77 percent of total support for Texan community colleges; in California, the taxpayers in the community college districts contributed 81 percent to the operating funds (Cohen & Brawer).

Beginning with the third generation of the community college movement, in the 1950's and 60's, the responsibility for financial support shifted to the state level, similar to the traditional way of supporting the states' university systems. This shifting was exacerbated by state measures like California's Proposition 13 of 1975, which effectively capped the amount of local taxation that could be

placed on property. The impetus behind limits on property tax is a movement for taxpayer equity, which attempts to distribute responsibility for financial support of social benefits among all citizens, not only those citizens who own real estate. A recent example is found in Oregon, where voters passed a Proposition 13-type measure in 1987. Oregon's community college officials are concerned the measure will have an adverse impact on the system. In Fiscal Year 1990, local revenue contributed 41.5 percent to the operating funds of the state's community colleges, a relatively high proportion. Oregon is a state with strong citizen support for community colleges. Tuition there is low, and the state's income tax provides 97 percent of the state's contribution to the community college system. Oregon has been a state which values local control in all matters, a philosophy which is reflected in its approach to local-district funding of the colleges (Hughes, quoted in Summers, 1991).

Local funding does not necessarily come from the personal income of individuals. Montana is a state

where 53 percent of community college operating funds are provided through local mill levies, tuition and fees. Montana is a state rich in natural resources, and is usually able to fund its colleges through royalties from the removal of those resources. Where Montana differs from Oregon is in the philosophy of its taxpayers. Montanans have the lightest tax burden of any state in this country; when the sale of resources is down and state revenues are in decline, the taxpayers balk at paying the difference. For this reason, because the revenue generated through natural resources was in recession, tuition in Montana made a steep jump in 1990: a 34 percent increase was absorbed by in-state students; 42 percent, by those from out-of-state. Because of the reluctance to tax the citizens directly, FTE in Montana ranks 45th in dollar value, faculty salaries rank at the bottom in national comparisons, and faculty turnover is triple the national average (Summers).

The financing of community college systems is drawing closer in its methods to the university system.

Student fees, historically higher at universities than community colleges, have been steadily rising since the 1970's. This year, every state system except that in Louisiana is planning to increase tuition (Sweeney); eleven states are planning double-digit increases. However, distributing a greater share of the cost to the student through tuition and fees does not always correlate with an increase in the amount of funds that are available to the individual institutions (Honeyman, Williamson & Wattenbarger, 1991). In states such as Florida, the intention is to increase the share of total cost that is paid by the student, at the same time decreasing the proportion of the state's revenues that are diverted to higher education.

Funding formulas.

Equity and fairness are two intentions of the systematic distribution of resources. No doubt they are intentions shared by all, but no clear pathway to equitable distribution has ever been found. One approach is through the use of a funding formula, an approach that was first used in Texas in the 1940's

(McKeown, 1989). By 1973, 25 states were using a funding formula of some kind, although a few had abandoned the practice; by 1984, 34 states were using a formula. Over the years, some states have discontinued the use of a funding formula in favor of a return to negotiated budgeting; for example, in 1988, California and Indiana discontinued the use of a formula.

The problem arises in deciding on which formula to adopt. Logically, when the situation changes, the formula should change as well. For example, in a time of rising enrollments, college administrators feel they critically need to be funded for every FTE. In a time of falling enrollments, they want to be fiscally buffered until they have time to adjust their overhead expenses to accommodate the lower student loads. One current issue is over the changing proportion of full-time to part-time students: the part time students are more expensive to serve, in terms of instructional support services required per student versus the number of FTE that they generate.

Quality has been incorporated into some state funding formulas since Tennessee's lead in 1984; now, institutional effectiveness is on every state's agenda. State governing bodies are trying to factor in quality, either by way of direct compensation for quality, as is found in Tennessee, or with the availability of additional funds to encourage the desired institutional behavior. Florida pioneered the linking of resource allocation to academic progress, on the logic that paying for FTE should produce academic progress in the students who were served.

The use of a funding formula is representative of the centralized control of resource allocation, since the formula is set by the state's governing agency. In those states with a greater proportion of local tax support, the formula may be used to recognize regional variations in level of available support, and to work toward statewide equity. It can also be used to supplement an FTE formula, recognizing that such activities as counseling and assessment are expensive, but essential, services.

A new kind of blues, or the same old tune?

One feature of the 1990's that may depart from previous decades is the fact that financial limitations are affecting every segment of education. Wattenbarger wrote in 1985, *"The news media are replete with features that list, analyze, and discuss the current problems of financial support for education in the United States. While community colleges have never been able to claim that they were generously supported, they had felt neither continued restrictions on their growth nor 'caps' on their enrollments until recent years. These restrictions, however, now are not limited to the community college sector of public education. Headlines in all parts of the country emphasize the 'high budgets' of the public schools as well as the limited resources available to the state colleges and universities,"* (Deegan & Tillery, pp. 252). This year has seen school district allocations that are flat or reduced, and state universities with enrollment caps and program cuts in reaction to fiscal limitations. In Florida for FY90, all segments of education received the same percentage midyear reduction.

In another way, today's educators are singing the same old tune that has been sung since colleges began. It bears remembering that the blues of prior depression and recession years were replaced by the Hallelujah Chorus when the fiscal times changed. President Bush has optimistically forecast that the recent national recession is already over.

The search for revenue is itself an old government tune, on every level: local, state, and national. Growth states like Arizona and Florida must still find another revenue source to meet the needs of a population that has tipped the balance in demand for services and ability to fund those services. A personal income tax is favored by Florida's Governor Chiles, and in fact, Florida is only one of a handful of states without a tax. Yet, Alaska had a state income tax at one time and voted it out; even with income taxes, nothing lasts forever. States like Alaska and Montana are rich some years, when natural resources bring great royalties, and poor in years when the royalties cease.

Funding formulas come and go. The tide sweeps in, the tide sweeps out.

One can assume that today's decline will ultimately reverse. Despite the relative wealth of the taxing authority, one truism endures: education costs all the money its institutions receive, and the allocation is never enough to fulfill the missions of the institutions. There is never too much. There is never enough.

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